

# SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Hollingsworth Analyst: Jane Tolman Bill Number: SB 417

Related Bills: See Prior Analysis Telephone: 8456111- Amended Date: 01-20-2004

Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Exclusion/Applicable Amounts Of Qualified Civil Service Retirement Annuity Income

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

\_\_\_\_\_ FURTHER AMENDMENTS NECESSARY.

\_\_\_\_\_ DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 20, 2003 STILL APPLIES.

\_\_\_\_\_ OTHER - See comments below.

## SUMMARY

This bill would exclude from gross income amounts received as a federal civil service retirement annuity.

## SUMMARY OF AMENDMENTS

The January 20, 2004, amendments changed the percentages of the amount of civil service retirement annuity income to be excluded from gross income as follows.

- From 10 % to 5% of the annuity for taxable years beginning on or after January 1, 2006, and before January 1, 2007.
- From 15 % to 7 ½% of the annuity for taxable years beginning on or after January 1, 2007, and before January 1, 2008.
- From 15% to 10% of the annuity for taxable year beginning on or after January 1, 2008, and before January 1, 2009.
- 15% of the annuity for any taxable year beginning on or after January 1, 2009.

A new revenue estimate is included below. The remainder of the department's analysis of the bill as introduced February 20, 2003, still applies.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	<input checked="" type="checkbox"/> PENDING

Legislative Director

Date

Brian Putler

2/4/04

## EFFECTIVE/OPERATIVE DATE

This bill is a tax levy and would take effect immediately. It would be operative for taxable years beginning on or after January 1, 2006.

## POSITION

Pending.

## ECONOMIC IMPACT

### Revenue Estimate

Revenue Impact (\$ million)				
Fiscal Year	2005-06	2006-07	2007-08	2008-09
Revenue Loss	-\$1	-\$3	-\$4	-\$5

This bill does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

### Revenue Discussion

From recently received national data, it is known that the federal Civil Service Retirement System (CSRS) is projected to pay out \$42 billion in 2006. The California share is about 5% of that, or about \$2 billion (\$42 billion times 5% equals \$2 billion). In 2006, the proposed exclusion of 5% makes the California share about \$105 million (\$2 billion times 5% equals \$105 million). Applying a marginal tax rate of 3 % results in a loss to California income tax revenue of around \$3 million (\$105 times 3% equals \$3 million). For projected years out to 2009, the increasing exclusion amounts of 7.5%, 10%, and 15% were applied.

The revenue loss estimates in the above paragraph were calculated on a tax-year liability basis and then converted to fiscal year, cash-flow projections (July 1 through June 30). Only a portion of the \$3 million loss in 2006 was included in the 2005-06 fiscal year (\$800,000, rounded to \$1 million). In the first full fiscal year, 2006-07, the remainder of tax year 2006 was used, as well as a portion of 2007 to take into account the timing of changes to withholding and estimated taxes paid throughout the year.

For projected years out to 2009, the increasing exclusion amounts of 7.5%, 10%, and 15% were applied, as were the changes in federal CSRS payouts. Revised national data were used, and the results were rounded to millions of dollars.

## LEGISLATIVE STAFF CONTACT

Jane Tolman  
Franchise Tax Board  
845-6111  
[Jane.Tolman@ftb.ca.gov](mailto:Jane.Tolman@ftb.ca.gov)

Brian Putler  
Franchise Tax Board  
845-6333  
[Brian.Putler@ftb.ca.gov](mailto:Brian.Putler@ftb.ca.gov)